

**BEFORE THE
ILLINOIS COMMERCE COMMISSION**

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COMMERCE COMMISSION

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CHIEF CLERK'S OFFICE

Illinois Bell Telephone Company

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**Compliance with Requirements of 13.505.1
of the Public Utilities Act (Payphone Rates)**

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Docket No. 05-0575

SUPPLEMENTAL DIRECT TESTIMONY OF

MICHAEL STARKEY

Public Version

On behalf of

The Illinois Public Telecommunications Association

April 24, 2007

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Attachment 1 (Confidential)

1 **I. INTRODUCTION**

2
3 **IA. INTRODUCTION OF MR. STARKEY**

4
5 **Q. PLEASE STATE YOUR FULL NAME AND BUSINESS ADDRESS FOR THE**
6 **RECORD.**

7 A. My name is Michael Starkey. My business address is QSI Consulting, Inc., 243
8 Dardenne Farms Drive, Cottleville, MO 63304.

9
10 **Q. WHAT IS QSI CONSULTING, INC. AND WHAT IS YOUR POSITION WITH**
11 **THE FIRM?**

12 A. QSI Consulting, Inc. ("QSI") is a consulting firm specializing in regulated industries,
13 econometric analysis and computer aided modeling. I serve as the firm's President.

14
15 **Q. ARE YOU THE SAME MICHAEL STARKEY WHO PREVIOUSLY**
16 **SUBMITTED TESTIMONY IN THIS PROCEEDING?**

17 A. Yes, I am.

18
19 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

20 A. I have been asked by the IPTA to review the supplemental direct testimony submitted by
21 Mr. Panfil on behalf of by AT&T.¹ Specifically, I've been asked to evaluate the twice
22 "updated" imputation analysis presented by Mr. Panfil.

23

¹ Mr. Panfil submitted supplemental direct testimony on February 19, 2007 and later submitted a revised version of that testimony on April 13, 2007.

IB. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

Q. PLEASE SUMMARIZE YOUR CONCLUSIONS AND RECOMMENDATIONS.

A. As discussed in my direct testimony and in the testimony to follow, AT&T Illinois' imputation analyses, including those submitted by Mr. Panfil most recently, are deficient in a number of areas and should not be used by the Commission as a basis upon which it can approve new payphone rates for AT&T Illinois. Moreover, even if the imputation analyses most recently filed by AT&T were reliable, they do not support rate increases commensurate with the levels proposed by AT&T's Mr. Panfil. To the extent that this Commission endeavors to establish new rates for AT&T Illinois' payphone services, a reasonable weighing of the Illinois imputation standard and the FCC's New Services Test requires that any rate increases be limited to a level which is required to just meet the Commission's imputation standards as described in my November 3, 2006 testimony. In the testimony to follow (Section III) I provide for the Commission specific, updated rates which would meet this requirement (based upon figures originally provided in my direct testimony)

II. OVERVIEW OF UPDATED IMPUTATION ANALYSES**IIA. DISCUSSION OF AT&T'S UPDATED PROPOSAL**

Q. HAVE YOU HAD AN OPPORTUNITY TO REVIEW MR. PANFIL'S SUPPLEMENTAL DIRECT TESTIMONY, EXHIBITS AND SUPPORTING DOCUMENTS?

A. Yes. I have reviewed the testimony and exhibits Mr. Panfil filed on February 19, 2007 as well as those which he filed on April 13, 2007. Mr. Panfil states at the outset of his

1 testimony that his purpose "is to provide additional imputation study data that reflects the
2 substitution of a LRSIC port (and related network usage) for a UNE port (and related
3 UNE network usage) in the studies provided to date."² His testimony briefly discusses
4 such data and the exhibits attached thereto compare the studies (past and present) and
5 present what AT&T Illinois would have this Commission believe is a revenue shortfall
6 which must be cured by increased rates levied against payphone service providers.
7

8 **Q. PLEASE BRIEFLY SUMMARIZE, IF YOU WOULD, YOUR UNDERSTANDING**
9 **OF THE ADDITIONAL IMPUTATION DATA PROVIDED BY MR. PANFIL.**

10 A. Mr. Panfil's testimony describing his analyses is very brief and the additional imputation
11 analyses themselves are notably incomplete. For example, as discussed at page two of
12 his supplemental direct testimony, Mr. Panfil's proposed updates only impact the "cost
13 side" of AT&T Illinois' imputation analyses. That is, while fully aware of the
14 deficiencies implicit within AT&T Illinois' imputation analyses regarding its EUCL
15 revenues (i.e., the "revenue side" of the equation), Mr. Panfil and AT&T Illinois have
16 chosen simply to ignore those issues in the most recently updated analyses. That aside,
17 Mr. Panfil describes three primary changes he has undertaken in the imputation analysis.
18

19 First, he testifies that the UNE Port Rate previously included in his analyses has been
20 replaced by the Long Run Service Incremental Cost ("LRSIC") of a switch port. Second,
21 Mr. Panfil discusses having replaced UNE usage costs with LRSIC based usage costs.
22 And, similarly, he discusses having replaced UNE based switched access costs with
23 LRSIC based switched access costs.
24

² See Panfil supplemental direct at p.1, lines 12-16.

1 **Q. GIVEN THAT MR. PANFIL'S UPDATED IMPUTATION ANALYSES**
2 **GENERALLY REPLACED PORT RATES WITH PORT LRSICS AND UNE**
3 **BASED USAGE COSTS WITH LRSIC BASED USAGE COSTS, DID YOU HAVE**
4 **A HIGH LEVEL EXPECTATION AS TO HOW THE STUDIES WOULD HAVE**
5 **CHANGED AS A RESULT OF THE UPDATING PROCESS?**

6 **A. Yes, I did. Given AT&T's position in the past that TELRIC-based rates should use lower**
7 **fill factors, higher costs of capital and other differences that tend to increase TELRIC**
8 **costs beyond LRSIC levels, the substitution of LRSIC for TELRIC values related to the**
9 **switch port should have reduced the "cost-side" of the imputation analysis rather**
10 **significantly.**

11
12 **Q. DID MR. PANFIL'S SUBSTITUTION OF TELRIC BASED COSTS AND/OR**
13 **RATES FOR LRSIC BASED VALUES RESULT IN THE APPROPRIATE**
14 **DECREASES?**

15 **A. No, not at all. Notably, the reductions associated with the port rate substitution are much**
16 **smaller than those which are appropriate in this case. Additionally, while AT&T's**
17 **February 19, 2007 testimony and exhibits initially reported a substantial increase in**
18 **switched access costs when moving from TELRIC to LRSIC values (an anti-intuitive**
19 **result), the company's most recently filed studies seem to correct for this previous error**
20 **and reverse out that increase, resulting in a modest decrease in imputed costs.**

21
22 **IIB. SHORTCOMINGS OF AT&T'S PROPOSED ANALYSES**
23

1 **Q. HAVE YOU BEEN ABLE TO DETERMINE WHY MR. PANFIL'S ANALYSES**
2 **FAIL TO CAPTURE THE DECREASE IN COSTS YOU WOULD HAVE**
3 **EXPECTED REGARDING THE PORT RATE SUBSTITUTION?**

4 A. Yes. Even though AT&T Illinois presented evidence earlier in this proceeding pertaining
5 to the port LRSICs that should have been used to supplant UNE based port rates, Mr.
6 Panfil has chosen to ignore AT&T Illinois' previous data and without sufficient
7 explanation, take a completely different approach to estimating LRSIC-based port costs.

8
9 **Q. PLEASE EXPLAIN FURTHER HOW MR. PANFIL HAS TAKEN A**
10 **COMPLETELY DIFFERENT APPROACH FROM THAT TAKEN BY AT&T**
11 **ILLINOIS EARLIER IN THIS PROCEEDING WITH RESPECT TO LRSIC-**
12 **BASED PORT COSTS.**

13 A. Schedule (PROPRIETARY) DJB-2, filed with Mr. Barch's direct testimony in this
14 proceeding states that AT&T's most recent vintage of data supports a port LRSIC equal
15 to [** [REDACTED] **]. And while I may have reason to challenge that number as being too
16 high, the imputation analyses should have fallen substantially owing to that substitution
17 alone given the fact that the TELRIC-based value was equal to [** [REDACTED] **]. The table
18 below highlights the reduction that I would have expected to see when moving from
19 TELRIC-based port costs to LRSIC-based costs:

Table 1.0 (CONFIDENTIAL)

UNE port Price - 2W COPTS Basic	[REDACTED]	See (IPTA 1st Conf Atch 19) at tab 5.4
COPTS Basic Line Port	[REDACTED]	See Schedule (PROPRIETARY) DJB-2
Stand alone decreased imputed costs	[REDACTED]	

1 This port related cost reduction when coupled with additional UNE to LRSIC
2 substitutions should have brought AT&T's imputed costs down by more than two dollars
3 per line per month. Yet, according to Mr. Panfil's most recent analysis (Confidential
4 Schedule ELP-SD1), AT&T's proposed changes reflect a decrease of only [** [REDACTED] **]
5 per line per month.
6

7 **Q. DID AT&T USE THE PORT LRSIC DATA IT PROVIDED EARLIER IN THIS**
8 **CASE TO UPDATE ITS IMPUTATION ANALYSES?**

9 A. No. Even though AT&T in its November, 2005 testimony in this case touted the need to
10 use "updated" LRISCs to capture more recent data, Mr. Panfil in his most recent
11 testimony inexplicably chose to rely upon studies from the 1999-2000 timeframe to
12 support his revised LRSIC-based port costs. Remarkably, the new LRSIC proposed by
13 AT&T relative to the port in Mr. Panfil's most recent analyses is notably higher than that
14 which Mr. Barch initially included in his testimony in this proceeding.
15

16 **Q. WHAT IS MR. PANFIL NOW PROPOSING AS THE PROPER PORT LRSIC TO**
17 **BE INCLUDED IN THIS IMPUTATION ANALYSIS?**

18 A. Tab 5.4 of a Microsoft® Excel workbook entitled *Imp Bus.NAL 04-0461 Compliance*
19 *(rev.LRSICport.2007.02.19)(current rates).xls* provided by AT&T Illinois in discovery³
20 includes a port LRSIC of [**\$ [REDACTED] **] compared to the [**\$ [REDACTED] **] previously proposed
21 by Mr. Barch.⁴
22

³ The file was provided by AT&T on a CD entitled *AT&T Illinois Docket No. 05-0575 Supporting Workpapers for AT&T Illinois Ex. 1.2 (Panfil)*, which was provided to the IPTA coincident with Mr. Panfil's supplemental direct testimony.

⁴ See Schedule (PROPRIETARY) DJB-2 attached to Mr. Barch's direct testimony in this proceeding.

1 **Q. HOW DID AT&T ILLINOIS DEVELOP THIS NEW PORT LRSIC?**

2 A. The source identified within the Microsoft® Excel file provided by AT&T suggests that
3 the value was taken from an “adjusted 07-0700” cost study, which I presume to be a
4 reference to ICC Docket 00-0700. This assumption is corroborated by the fact that the
5 ARPSM (“Ameritech Regional Partners-in Provisioning Switching Model”) model
6 supplied by AT&T Illinois in this proceeding as support for its new imputation analysis,
7 was the model Ameritech Illinois and SBC Illinois (the predecessors to AT&T Illinois)
8 used during the later part of the 1990s and in 2000 for purposes of developing switch
9 costs in Illinois (and is the model relied upon by AT&T Illinois in Docket No. 00-0700).
10 Indeed, Mr. Panfil’s testimony confirms this assumption as follows in this testimony:
11 “[W]e used the TELRIC cost studies that were used to set the UNE switching and shared
12 transport rates in Docket No. 00-700, modified to the extent necessary to reflect LRSIC
13 rather than TELRIC standards.”⁵

14
15 **Q. GIVEN THAT THE NEWLY PROPOSED PORT LRSIC HAS ITS ORIGIN IN**
16 **AN UPDATED STUDY FROM ICC DOCKET 00-700, IS THERE ANY**
17 **CONCERN THAT THE STUDY METHODOLOGY IS OUTDATED OR THAT**
18 **THE SWITCH VENDOR CONTRACTS ON WHICH THE STUDY IS BASED**
19 **ARE NO LONGER APPLICABLE?**

20 A. Yes on both accounts. In fact, the Commission need not look further than AT&T Illinois’
21 own testimony in this case for the relevant evidence. In his direct testimony, AT&T
22 witness Mr. Barch advocated strongly that new, updated switching models must be used
23 to support LRSIC values for switching equipment given the dramatic changes that had

⁵ See Panfil supplemental direct testimony at p.3, lines 64-67.

1 occurred in the recent past (i.e., contract pricing changes). Mr. Barch stated as follows in
2 his direct testimony:

3
4 SBC's Switch Information Cost Analysis Tool ("SICAT") is the tool that
5 produces not only switch port investment, but also all switch investment
6 pertaining to ports, trunks, end office switches, and tandem switches. *The*
7 *primary inputs for SICAT include SBC's current contractual pricing. This*
8 *pricing, which can be quite detailed, contains various integrated prices for*
9 *equipment such as replacement lines, new lines, growth lines, trunks and/or*
10 *switch upgrades.* Not only do prices vary by vendor, but in some instances,
11 prices are further distinguished based on types of lines being installed on a switch
12 (i.e., new, growth, or replacement). Prices associated with these line types
13 encompass different types of equipment such as the line port, trunks, and usage.
14 *SICAT has been used for several years by SBC across its states to develop*
15 *switch-related investment underlying its cost development for both retail and*
16 *wholesale services as well as UNEs.*⁶ *(Emphasis added)*
17

18 Moreover, according to AT&T's response to IPTA 6.75, AT&T has stopped relying upon
19 ARPSM based studies and, instead, has relied upon SICAT based studies for purposes of
20 developing cost studies here in Illinois as well as the remaining Midwestern states for at
21 least 4-5 years. For example, in addition to Mr. Barch's earlier work in this proceeding,
22 AT&T relied upon the SICAT when placing service costs into the record in ICC Docket
23 06-0027 and the SICAT was specifically approved for use, based upon AT&T's
24 advocacy, in recently completed Docket No. U-13531 before the Michigan Public
25 Service Commission. Hence, it seems that a roll back to the days of ARPSM would be
26 problematic in terms of both study methodology and vintage of switch vendor contracts,
27 the later of which, in my experience, is one of the largest drivers in terms of developing
28 switch investments and costs. Given that AT&T Illinois has been relying upon SICAT,
29 and SICAT's analysis of updated switch-vendor contracts, Mr. Panfil's decision to ignore

⁶ See Barch Direct at P.8.

1 the more relevant and current SICAT, in lieu of ARPSM results from several years
2 previous, is truly confusing (and appears to be largely results oriented).

3
4 **Q. DOES MR. PANFIL DESCRIBE WHY HE DECIDED TO REVERT BACK TO**
5 **THE ARPSM MODEL FOR PURPOSES OF THIS PROCEEDING DESPITE**
6 **THAT MR. BARCH HAS ALREADY INTRODUCED THE SICAT MODEL IN**
7 **THIS CASE AND THAT SBC HAS USED IT SO EXTENSIVELY?**

8 A. He stated only that he used the ARPSM because it was investigated and approved in ICC
9 Docket 00-0700. He does not describe why AT&T Illinois has had a change of heart in
10 first advocating SICAT earlier in this docket, and then without explanation, advocating
11 the much older ARPSM which generates higher costs.

12
13 **Q. HAVE YOU BEEN ABLE TO VERIFY WHETHER THE ARPSM MODEL**
14 **SUPPORTING MR. PANFIL'S UPDATED ANALYSIS RELIES UPON**
15 **CURRENT SWITCH CONTRACTS AS DOES THE SICAT?**

16 A. Yes, I have been able to verify that the ARPSM model relied upon by Mr. Panfil uses the
17 older, outdated switch-vendor contracts. For example, when you compare the contracts
18 relied upon by the newer, updated SICAT 4.1 model provided in response to discovery in
19 these proceedings, you can quickly compare those contracts with the switch vendor
20 pricing found in AT&T Illinois' *ARPSM 01-07 IL Compliance.xls* file provided with its
21 supplemental direct testimony. The contracts are not the same. It is clear that Mr. Panfil
22 is using ARPSM-based results even though he realizes that the study models contracts
23 that haven't been relevant since at least 2001 .
24

1 **Q. DOES AT&T'S NEWLY PROPOSED PORT LRSIC INCLUDE USAGE AS A**
2 **FLAT-RATED COMPONENT OF THE PORT?**

3 A. Yes. The Microsoft® Excel file provided by AT&T which is entitled *IL_Local*
4 *Switching_Compliance_DKT 00-700 rev 02-07.xls* is clearly based upon the whole of
5 the investment generated and displayed within the Microsoft® Excel file provided by
6 AT&T entitled *ARPSM 01-07 IL Compliance.xls*. In developing monthly port LRSICs
7 within its port study, AT&T Illinois relies upon the CCS⁷ and non CCS per line
8 investments generated within the ARPSM, without excluding any costs, let alone CCS, or
9 usage related costs. See for example, Tab 5, Tab 5.1, Tab 5.2 and Tab 7.0 of the former
10 and Tab Output Summary of the later for confirmation. This is a clear indication that the
11 ARPSM "port" costs included by Mr. Panfil include all costs necessary to accommodate
12 anticipated usage (i.e., there would be no additional "per minute" costs for using the port
13 to generate local, long distance or other calls).

14
15 **Q. YOU MENTIONED THAT AT&T'S SWITCHED ACCESS COSTS INCREASED**
16 **SUBSTANTIALLY WITH THE FILING IN FEBRUARY BUT SHOW A VERY**
17 **MODEST DESCREEASE WITH THIS MOST RECENT FILING. PLEASE**
18 **DISCUSS THAT ISSUE IN MORE DETAIL.**

19 A. Tab 5.4 of the Microsoft® Excel file entitled (*IPTA 1st Conf Attch 19*) *Imputation*
20 *Bus.NAL 04-0461 Compliance (2005-08-31).xls*, provided in response to IPTA No.19,
21 includes switched access costs of [**\$■■■■**] per line per month.⁸ The company's
22 February 19, 2007 filing suggested that the switched access cost were equal to

⁷ Centum Call Second – a measure of capacity within the switch.

⁸ AT&T's response to IPTA was provided on December 16, 2005.

1 [**\$[REDACTED]**]⁹ per line, which represents an increase of nearly a 75%. The latest figures
2 proposed by AT&T Illinois (i.e. those included with the company's April 13, 2007 filing)
3 indicate that switched access costs are equal to [**\$[REDACTED]**]¹⁰ per line per month,
4 comprising a modest decrease of approximately 3%.

5
6 **Q. IF MR. PANFIL'S OBJECTIVE WAS TO SWITCH UNE INPUTS TO LRSIC**
7 **(GENERALLY LOWER COST) INPUTS, HOW COULD IMPUTED SWITCHED**
8 **ACCESS COSTS INCREASE AS INITIALLY PROPOSED BY AT&T OR, AS**
9 **THE COMPANY'S MORE RECENT WORK SUGGESTS, PROVIDE FOR SUCH**
10 **A MODEST DECREASE?**

11 A. There's simply no explanation as to why costs would legitimately increase in this fashion
12 if the only change was to switch from TELRIC inputs to LRSIC input values. Further,
13 Mr. Panfil's testimony – as filed in February - did not describe the fact that switched
14 access costs increased in his updated analysis, nor did it explain why – even though this
15 specific increase in costs constituted the most dramatic change in his overall imputation
16 analysis. The entire issue was largely ignored. Rather, Mr. Panfil simply stated that for
17 “switched access, we used the LRSIC costs shown in the Aggregate Revenue Test, which
18 are the costs that were used as the basis for setting LRSIC-based switched access rates in
19 Consolidated Docket Nos. 97-0516/97-0601/97-0602.”¹¹ He provided no further
20 explanation or justification for using this specific data and certainly provides no
21 justification for using those inputs in light of the fact that they drove increases in
22 switched access costs of nearly 75%. And, as with the switch from SICAT to ARPSM,

⁹ See Tab 5.4 of the Microsoft® Excel file entitled *Imp Bus.NAL 04-0461 Compliance (rev.LRSIC.port.2007.02.19)(Current rates).xls*.

¹⁰ See Tab 5.4 of the Microsoft® Excel file entitled *ImpPayph.NAL05-0575 (LRSICport.2007.04.13)(current rates).xls*.

¹¹ See Panfil supplemental direct at p.3, lines 66-69.

1 Mr. Panfil provides not justification for utilizing piece parts taken from studies which are
2 approximately 10 years old. Indeed, he has presented no reasonable justification for his
3 actions in this regard. Moreover, while AT&T Illinois' response to IPTA 6.80 (j)
4 suggested that AT&T has identified an error within its switched access LRSIC and that
5 the cost would be [** \$ [REDACTED] **] instead of [**\$ [REDACTED] **], there was no explanation given as
6 to what caused these problems or why the decrease was only about 3%. Indeed, the
7 company's April 13, 2007 filing offers no explanation.

8
9 **Q. HAVE YOU EXAMINED THE MOST RECENTLY PROPOSED LRSIC COST**
10 **OF SWITCHED ACCESS?**

11 A. I have. And, it is clear that the switched access component of AT&T's most recently
12 proposed imputation analyses is still incorrect. Indeed, AT&T's switched access costs
13 are still overstated by almost 30%.

14
15 **Q. HOW DID YOU DETERMINE THAT AT&T's SWITCHED ACCESS COSTS, AS**
16 **CONTAINED IN THE APRIL 13, 2007 IMPUTATION ANALYSES, ARE STILL**
17 **OVERSTATED?**

18 A. AT&T includes in its most recent imputation analysis, [**\$ [REDACTED] **]¹² in intrastate
19 switched access costs, with a reference to ART04_f.xls, Tab SwAC, and an indication
20 that such amounts account for switched access costs "other than local switching
21 (intrastate)." Further review of the ART04_f.xls file, however, makes clear that fewer
22 than [**\$ [REDACTED] **] of annual costs emanate from all but the local/end office

¹² See Tab 8.6 of the Microsoft® Excel file entitled *ImpPayph.NAL05-0575 (LRSICport.2007.04.13)(currentrates).xls*.

1 switching categories. In short, AT&T Illinois' most recent imputation analyses includes
2 double counted switch costs.

3
4 **Q. WHAT COSTS ARE DOUBLE COUNTED?**

5 A. While Mr. Panfil seems to have removed some of the costs reported within the "Total
6 Local Switching 6.9.2" and "Total EO NRCs 6.9.3" categories as contained in the
7 aggregate revenue test reference within his work papers, not all of those end office, or
8 switching, related costs have been removed from the remaining switched access costs
9 (i.e. those which are included in the imputed costs). Hence, the remaining, switching
10 costs are double counted given that the ARPSM, as describe above, captures all
11 components and costs associated with local switching.

12
13 **Q. CAN THE DOUBLE COUNTED SWITCH COSTS BE REMOVED FROM THE**
14 **ART FILE, AND THEREFORE, THE SWITCHED ACCESS PIECE OF THE**
15 **COMPANY'S PROPOSED IMPUTED COSTS?**

16 A. Yes. In fact, I simply removed the double counted end office switching related costs
17 from ART04_f.xls, and substituted the remaining monies, approximately
18 [**\$■■■■■**], into the intrastate switched access costs within AT&T's recently
19 updated studies, in place of the [**\$■■■■■**] figure. As a result, AT&T's switched
20 access imputed costs should be [**\$■■■■■**], rather than the [**\$■■■■■**] most recently
21 proposed by Mr. Panfil. As such, Mr. Panfil's proposed imputation tests are overstated
22 by approximately [**\$■■■■■**] per line per month due to this error in estimated switched
23 access LRSICs.

24

1 **Q. HOW DOES MR. PANFIL JUSTIFY THE DOUBLE COUNTING OF COSTS**
2 **DESCRIBED ABOVE?**

3 A. He doesn't. In fact, his testimony supports the notion that he has double-counted these
4 costs. Mr. Panfil describes that the 00-700 studies are unique in that they include a "flat-
5 rated monthly amount for the local switching portion of local and toll usage (including
6 switched access), instead of separately stated per-call and per minute costs." ¹³ He then
7 goes on to say:

8 In adapting the Docket No. 00-700 port costs for this proceeding, I did not
9 attempt to remove this flat-rated component from the port rate and add it to the
10 other per-call and per-minute costs. Instead, I simply substituted LRSIC usage
11 costs for the UNE rate-based usage costs used in the original analysis. Although
12 LRSIC studies for port costs do not normally include flat-rated amounts for
13 usage, I used this approach to avoid unduly complicating the analysis. ¹⁴
14

15 It appears Mr. Panfil erred on the side of double-counting rather than "undue"
16 complication. Nonetheless, such a tradeoff isn't reasonable, especially when its impact
17 on the imputation analysis is so dramatic. Whatever may be the case, it's absolutely clear
18 that his port LRSICs include costs for the entire switch – including CCS, or usage related
19 components – and that the switched access studies likewise include millions of dollars in
20 estimated local switched-based capacity costs meant to recover the same costs. It is a
21 clear double-count.
22

23 **Q. SHOULD THE COMMISSION REJECT MR. PANFIL'S ENTIRE UPDATED**
24 **ANALYSIS?**

25 A. Yes, it should. First, Mr. Panfil provides no rational support for using the outdated
26 ARPSM results. Likewise, he attempts to "brush off" a clear and meaningful double-

¹³ Panfil supplemental direct at p.5, lines 98-100.

¹⁴ Panfil supplemental direct at p.5, lines 100-106.

count resulting from his mixing and matching even older switched access data within the analysis. Simply put, his "updated" analysis is actually a "back dated" analysis resulting in older, less meaningful results that include a dramatic double count to boot.

Q. HOW DO AT&T'S ORIGINAL IMPUTATION COST PROPOSALS COMPARE TO THOSE SUPPORTED BY MR. PANFIL'S SUPPLEMENTAL TESTIMONY?

A. Table 2 compares AT&T's initial imputed cost proposals with Mr. Panfil's "updated" analysis.

Table 2.0 (CONFIDENTIAL)

	AT&T Initial Proposal	AT&T Supplemental Proposal	Change
COPTS Basic Line, Area A			
COPTS Basic Line, Area B			
COPTS Basic Line, Area B			

AT&T's most recent imputation cost estimates are based on faulty LRSIC data and should be rejected. The port LRSICs are based on an outdated model which has not been used by AT&T for several years and that model relies upon switch vendor contracts which are no longer applicable to AT&T and which the company does not use to feed its current switch cost model, SICAT. Moreover, the company has double counted switching costs such that those costs are included in both the port LRSICs and switched access LRSICs.

**III. AT&T'S MOST RECENTLY PROPOSED IMPUTATION ANALYSES ARE
SKEWED AND ANY RATE CHANGES SHOULD BE LIMITED TO A LEVEL
REQUIRED TO JUST MEET THE IMPUTATION STANDARD AS DISCUSSED IN
MY NOVEMBER 3, 2006 TESTIMONY.**

Q. MR. PANFIL STATES AT PAGE 6 OF HIS SUPPLEMENTAL TESTIMONY
THAT THE MARGIN BY WHICH VARIOUS TYPES OF PAYPHONE LINES
FAIL RANGES BETWEEN [**\$■■■■**] AND [**■■■■**] PER MONTH AND
THAT SUBSTANTIAL RATE INCREASES ARE REQUIRED. DO YOU
AGREE?

A. No, I do not. First, the amount by which Mr. Panfil alleges the imputation analyses fail is skewed by the faulty analysis I describe above (and in my direct testimony). Attachment 1 (Confidential) to this testimony compares Mr. Panfil's numbers (revenues, imputed costs and "shortfall") to those I have developed in a side-by-side manner akin to that which I had provided with my direct testimony. As discussed herein and in my direct testimony, AT&T has failed to account for the EUCL revenues it began to receive in August 2006. Hence, in that regard, revenues are understated and my analysis corrects for the error on AT&T's part. Additionally, AT&T has used the wrong port LRSIC and wrong switched access LRSIC in its most recent studies and I have made corrections to account for those errors as described above. Finally, as discussed in my direct testimony, the Service Coordination Fee is not applicable and should not be included in these imputation analyses. Therefore, I have excluded them from my calculations. Table 3.0 compares AT&T Illinois revenues, imputed costs and shortfall with those figures I have calculated. A line by line analysis is included in Attachment 1 (CONFIDENTIAL) to this testimony.

Table 3.0 COPTS Basic (CONFIDENTIAL)

AT&T Illinois

Description	Area A	Area B	Area C
Total Retail Revenue per Line	████	████	████
Total Imputed Cost	████	████	████
Imputation Results	████	████	████

IPTA

Description	Area A	Area B	Area C
Total Retail Revenue per Line	████	████	████
Total Imputed Cost	████	████	████
Imputation Results	████	████	████

These figures do not justify rate increases of the magnitude discussed by Mr. Panfil, if they justify any increases at all. Indeed, any rate increases should be limited to a level required to just meet the imputation standard as discussed in my November 3, 2006 testimony.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.